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The news magazine for retail operations
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1985 Annual Census of American Chain Stores

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Retail employers respond to working mothers

Zale's Dr. Michael Romaine (left) and President Bruce Lipshey

Chain Store Age EXECUTIVE Volume 61, No. 7/July 1985

CONTENTS

Employers respond to two-career families 11
Retail companies are among the first to grapple with the new realities generated by a changing workforce.

Corporate child care: Making an impact on productivity 13

Industry profiles 15
A look at the latest trends in store size and construction expenditures.

15 Supermarket
18 Department store
24 Home center
26 Specialty
28 Discount
31 Drug

Physical support systems 34
Exclusive research on the costs and average lifespans of the major materials and equipment related to store construction.

34 Interior lighting
38 Security
41 Roofing
45 Interior signage
50 Flooring
56 Fixtures
60 HVAC
62 Ceilings
64 Energy management
66 Solid waste management
69 Floor maintenance
75 Distribution
81 Shopping bags
81 Shopping carts

1985 store design contest: Are your entries in the mail? 90
Chain Store Age Executive begins accepting entrants for its fourth annual New Store of the Year design contest.

SHOPPING CENTER AGE

Innovative architecture: Are there any limits? 83
Designers must cope with restrictions imposed on them by location and budget when creating shopping centers.

RETAIL TECHNOLOGY

Planning systems put buyers in their place—the market 93
By streamlining the planning process, merchandisers are making more efficient, more creative use of their time.

UVM ticketing campaign gathering vendor momentum 95
The National Retail Merchants Association is achieving results by urging manufacturers to tag their own goods.

4 From the Editor's Desk
6 Washington Commentary
6 F.Y.I.
9 Accounting Views
86 On the Level
86 Shopping Center Real Estate
88 New Stores & Shopping Centers
98 What's in Store
101 Classified Advertising
105 Advertising Index
106 People in the News

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Chain Store Age News Japan
1-4-2 Kasumigaseki, Chiyoda-ku
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According to FMI, only 3.4% of supermarkets in its survey sample report not having a deli.

Supermarket operators: Keeping their averages up

Supermarket operators are building their stores bigger and they believe they're building them better—at least when it comes to appealing to myriad consumer tastes.

The average size of the supermarket built during the past 12 months or presently under construction has risen to a whopping 45,640 sq. ft., compared with 39,390 sq. ft. for the average size of existing chain units, according to *Chain Store Age Executive* research. This translates into approximately 35,000 sq. ft. of selling space for the newer stores compared with approximately 30,000 sq. ft. for existing units.

What many of these operators are doing with this excess space is utilizing it to merchandise goods for an increasingly diverse consumer marketplace. They are coming to realize that the same exact items don't necessarily appeal to everyone.

At the same time, they continue to diversify their store formats. Almost all major markets are still characterized by the presence of conventional stores, combination stores, superstores and warehouse stores. However, the mix continues to change.

During 1984, according to a massive survey of food distribution conducted by the Food Marketing Institute (FMI), 4.1% of all supermarkets were opened in 1984, 6.9% were closed and 4.3% were remodeled.

Supermarket
Existing stores: Mean: 39,390 sq. ft.
Amount of selling space available in typical store: Mean: 30,054 sq. ft.
Stores opened in 1984-85: Mean: 45,640 sq. ft.
Amount of selling space available in stores opened in 1984-85: Mean: 35,006 sq. ft.
Cost to erect a building shell within last 12 months: Mean: $27.90 per square foot

Source: *Chain Store Age Executive* research

Of those stores closed, 70.7% were conventional stores, continuing the trend of the past several years. However, such closings have decreased markedly from 1981's record high when they accounted for 89.6% of all store closings.

One relative surprise this year is that the superstore category accounted for 23.9% of store closings, a four-year high. Combination stores represent 4.1% of last year's closings, while warehouse store closings fell to only 0.5%, from 1983's high of 3.4%, and limited assortment stores declined to only 0.9% from 1983's 4%.

In terms of new store activity, superstores continue to dominate the industry, representing 47.1% of all construction. However, conventionals appear to be making an extremely strong comeback, accounting for 26.2% of new store construction and taking the No. 2 spot away from combination stores. Combo stores represent 21.8% of all new stores.

Limited assortment stores represent only 0.6%, with warehouse stores accounting for the remaining 4.4% of new construction.

While not part of this survey, another format also increasing in both unit numbers and size are the megastores, or superwarehouse stores. By definition, such stores typically occupy a minimum of 50,000 sq. ft. They range as large as 140,000 sq. ft. Among them are such operations as Cub Food, Edwards, Holiday Plus and even Biggs, the Cincinnati hypermarket.

Although currently growing rather rapidly, megastores are expected to eventually capture no more than 5% to 7% of total supermarket sales. Yet, they have a tremendous impact on competitors in the markets in which they are located.

It's no wonder, then, that supermarket operators of all categories are becoming more experimental in their approach to store design and store format. One result is that many of the distinctions between formats are blurring. Warehouse stores, in particular, are tending to be transformed through almost as many specialty departments as are found in a superstore, for example.

One of the most popular such departments is the deli, according to the FMI's recent store survey. As Allen I. Bildner, president, King's Supermarket, noted at the recent FMI annual convention, "Only 3.4% of supermarkets in FMI's national survey sample report not having a deli."

Another specialty department growing rapidly in popularity is seafood. According to FMI, as of 1984 85.8% of all stores included in its survey now carry fresh seafood, typically stocking about 18 different items. ■

The industry profiles provided in this section include data on the average size of existing stores and new stores in each of six retail classifications. Information is also provided on how chains are diversifying into new store formats, what they are doing with excess space in some instances and less space in others, which types of stores are succeeding and which are failing.

Macy's Aventura Mall: Retailers are spending more for more elegant ceiling and floor materials.

Simplicity and opulence: Department store buzzwords

"With almost no exceptions, the amount of money being spent for remodeling greatly outweighs the amount being spent on construction for new department stores," observes Ken Walker, president, Walker Group/CNI, a New York-based design firm.

"More and more department stores are looking at existing plants and equipment and trying to wring more profitability out of that," he says, "rather than trying to get increased volume from new construction."

This trend to remodeling, born several years ago, comes largely out of the belief that many department store companies have sufficiently saturated their markets. High construction costs and hot competition has made return on investment for new stores far less than in years past.

Today, chains are plowing capital expenditures into remodeling stores in order to retain and broaden market share. They are seeking to hold on to their traditional, loyal customers as well as capture the more affluent, though fickle, Baby Boomer.

At the same time, "department store retailers are spending a great deal of time analyzing space because of the cost of space and the profit picture," points out L. Richard Boussel, senior vp-store planning and design for D. H. Holmes, New Orleans. "They are having to cut departments."

They are eliminating lower gross margins departments, like piece goods, hard goods, appliances and, in some cases, furniture. Higher profit men's and women's ready-to-wear, cosmetics and fashion accessories are being given more space in prominent areas.

"Consequently, many stores have had to reduce selling area. Some stores can allocate the extra space to ready-to-wear, but other downtown stores, where business has fallen off, are retrenching and making spaces smaller," states Edward Pfau, vp, Retail Planning Associates, Columbus, Ohio.

"It would be difficult for huge stores to afford things like marble and mirrors," currently popular materials for remodels, says Pfau. It is these materials that form the backbone of the new look, a look Pfau calls "simplicity and opulence."

"Conventional decor, which sometimes was decoratively done, has mellowed down to simpler planes, where retailers can do better merchandising without competing with contrasting planes," says Pfau.

Despite the simplicity, retailers are spending more for more elegant materials for the two main planes: floors and ceilings. "Hard aisles are everywhere," Walker reports. "Marble is becoming the linoleum of the 80's."

Ceilings are now being given a higher priority than in years past. New materials with textures and colors, and smaller, 2x2 panels are replacing the old 2x4 lay-in tiles. Where retailers don't want to rip out an entire ceiling, the tiles are being painted an off-white or pastel shade to give a more cohesive look.

Another trend Walker cites is the tendency of chains to give all their stores a uniform look, or, as he calls it, "a corporatewide signature."

"Rather than chains building each store in a unique manner, more and more are looking to do similar things chainwide," he states. Individual departments in one store of the chain will look the same as those departments in every other store.

This makes things easier from a management standpoint, he says. The presentation and fixturing becomes standardized and it's much simpler for a chain to control the look of its stores.

"We look at it with a bit of trepidation," he says. "I think it's valid, but you have to be careful that you don't get everything looking so homogenous that it becomes bland. There's a problem of losing some spark. But done with a good eye and a good hand it can work."

Another trend is for stores to require a focal point, or the central core, usually on the main floor. While popular, it is a trend Pfau is critical of. "I'd rather distribute my funds throughout the total floor and do more 'pockets of interest' and highlights around the store . . . when you spend that kind of money there, the rest of the store starts to fall away flat.

"When you walk into a civic building or a religious institution, you can see the justification for a great architectural expression in the middle of the building because what else have they got? But," he continues, "does a department store have to put that much trust into one architectural feature when they have so many other exciting things going on?" ■

Department
Existing stores: Mean: 138,920 sq. ft.
Amount of selling space available in typical store: Mean: 111,652 sq. ft.
Stores opened in 1984-85: Mean: 114,000 sq. ft.
Amount of selling space available in stores opened in 1984-85: Mean: 94,230 sq. ft.
Cost to erect a building shell within last 12 months: Mean: $38.90 per square foot
Source: Chain Store Age Executive research

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Store size and market share take giant steps forward

In a home center industry marked by consolidation, expansion and the growing prominence of warehouse operations, there's a trend toward bigness.

That certainly applies to market share. According to *National Home Center News (NHCN)*, the industry's 10 leading chains produced revenues of nearly $8.75 billion in 1984—about 20% more than they did during the year before. Their share of total retail lumber, building materials and hardware dealers' sales rose to 14.7% in 1984 from 14.2% in 1983.

Among the more notable recent transactions: Home Depot bought Bowater Home Centers of Dallas for $38 million; Service Merchandise, which acquired the Mr. HOW warehouse chain in 1983, paid $18 million for five Forest City warehouse units in Chicago, and industry leader Lowe's spent $50 million for 27 Sun-belt Boise Cascade outlets.

Home Depot expects to open 20 or more stores in 1985; average size will be 85,000 sq. ft.

Perhaps the most significant deal was K mart's $90 million acquisition of San Antonio-based Home Centers of America. Since renamed Builder's Square, the growing chain now has the resources behind it to carve out a sizable chunk of the warehouse market.

Indeed, the home center industry owes much of its expansion to the burgeoning warehouse sector. By *NHCN*'s count, 19 chains operated 129 warehouse outlets at year-end 1984, up from only 11 chains operating 45 such units at the end of the previous year. Furthermore, K mart, Home Depot and Mr. HOW alone accounted for some 42% of the new warehouse outlets opened in 1984.

And while the industry's dominant players get larger, so do the home centers themselves.

Among chains surveyed by *Chain Store Age Executive*, the average size of home center outlets opened within the prior year or under construction was 34,350 sq. ft., as compared with 26,410 sq. ft. for all units. This trend appears to be driven, at least in part, by the large scale expansion of the warehouse concept.

"Home Depot has hung in there with 70,000- to 80,000-sq.-ft. stores and we're now looking toward 100,000 sq. ft.," says John S. Romberger, director of construction and store planning at the Atlanta-based

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firm. He says Home Depot expects to open 20 or more stores in 1985, of which the average size will be 85,000 sq. ft. Two 100,000-sq.-ft. units are planned for 1986.

More conventional home center stores seem to be getting bigger too, possibly in response to competition from the warehouses.

"Our current prototype is a 37,500-sq.-ft. building, of which 30,000 sq. ft. is selling space, and a full-line lumberyard with 4.5 acres. In the past the average store was 30,000 sq. ft. with probably 23,000 sq. ft. of selling space," says Brad Bright, director of merchandising at Payless Cashways, Kansas City. The reason for the size increase, he says, is partly to bring certain yard items indoors and partly to house broader assortments of product lines that are usually kept inside the stores.

Operators like Payless Cashways and Lowe's, of North Wilkesboro, N.C., have resorted to store design as ways to differentiate themselves from each other and the warehouse concept—which has been lightheartedly summarized as "stack 'em high, price 'em low and watch 'em go."

Home Center
Existing stores: **Mean: 26,410 sq. ft.**
Amount of selling space available in typical store: **Mean: 21,207 sq. ft.**
Stores opened in 1984-85: **Mean: 34,350 sq. ft.**
Amount of selling space available in stores opened in 1984-85: **Mean: 28,373 sq. ft.**
Cost to erect a building shell within last 12 months: **Mean: $26.50 per square foot**

Source: *Chain Store Age Executive* research

"The home center industry hasn't really been deeply into the issues of good store planning and design. [The home center concept] started as a building that's an adjunct to a lumberyard," Bright says. "It's only been in the past couple of years that [the] industry has gotten competitive and people are looking at designs."

The recent emphasis on design—which, Bright notes, "is still in its infancy"—is linked somewhat to the better grade of merchandise carried by most home centers. "You don't need a lot of design to sell a $40, B-grade toilet," he says. "The industry's kind of gone from selling basic commodities to selling high-end goods." Better store design has also been considered a way to compete with the warehouses on a nonprice basis.

Bright lauded Lowe's for being one of the first and best among nonwarehouse home center chains when it comes to serious store design. "They treat the merchandise less like commodities than other people in the industry," he says.

Lowe's, which has led the home center field in total sales since 1982, had volume of approximately $1.69 billion in 1984. It ended 1984 with 248 stores and a total of 270 is projected for year-end 1985; the stores average out at about 12,000 sq. ft. in size.

For its part, Payless took a serious stab at design just a few years ago. "We've put in a new interior decor package, came in with modern earth-tones, new interior signage; we've taken a hard look at specific displays," Bright says.

He adds that Payless is probably going to introduce a new prototype this winter. ■

The Limited, Dylex grab more of diversified apparel market

Two retail giants—one domestic, one foreign—have become ever more prominent in the American apparel specialty store field, a sector that's also characterized by shrinking store sites and a bevy of niche concepts featuring European-influenced decor.

The Limited, stymied in its attempt to purchase Carter Hawley Hale Stores last year, took the acquisition route once more and bought 800-unit Lerner Stores from Rapid-American for $260 million, plus the assumption of $40 million in debt.

While many observers view Columbus, Ohio-based Limited's move as a foray into the women's budget apparel market, they haven't ignored the deal's real estate angle. Knowledgeable industry sources predict that The Limited—which is growing via massive internal expansion as well as acquisition (*Chain Store Age Executive*, March 1985)—will subdivide larger Lerner units to make room for other Limited operations.

Since the typical Lerner location reportedly is 8,000-9,000 sq. ft., with some mall locations as large as 13,000 sq. ft. and 60 ft. wide in front, The Limited could increase productivity by squeezing in such niche units as Victoria's Secret and Limited Express. Charles Hinson, Limited's vp-store planning, could not be reached for comment on the subject.

Meanwhile Dylex, Canada's dominant specialty store retailer, has stepped up its presence on this side of the border. BR Investors, a group formed by Toronto-based Dylex last year to take 700-unit Brooks Fashion Stores private for $370 million, paid nearly $49 million in cash to buy the ailing 614-store Foxmoor women's apparel chain from Melville.

All the while Melville and others have been starting up narrowly targeted specialty apparel concepts.

"It seems that every one of them is establishing chains that appeal to different parts of the market," says Ken Nisch, an associate with the Berkley, Mich., design firm, Jon Greenberg & Associates. "They're trying to take a [mall] customer through the entire spectrum, trying to appeal to all age groups. They keep cutting up the market."

In step with this trend, apparel specialty stores appear to be getting smaller. Among the apparel specialty chains surveyed by *Chain Store Age Executive*, the average size of units opened within the past year or currently under construction was 15,510 sq. ft., whereas the average size of all chain units was 19,910 sq. ft. Not surprisingly, the apparel chains devoted a greater portion of their total square footage—81.9%—to selling space than the other five chain-types surveyed.

The target-marketing of several new apparel concepts is reflected in their store design.

"Stores almost have to be a magazine cover," Nisch says. "You have to know exactly what the store stands

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for." In order to make a stronger visual statement, he says, "now there's more simplicity. Not 'simple' meaning 'boring,' but not overly complex."

Nisch described a recent design for Winkelman Stores as "a very simple white on white on white type of statement with most of the effects of the store being done with light levels . . . It seems like it's more in the direction of a pleasant, appealing room than creating another type of environment."

He says the chains are developing a tier of high-end apparel operations that, to mall landlords' delight, are designed to draw affluent, even "anti-shopping center," fashion customers to the centers. Advanced, European-influenced store design is a trait of some of these operations.

Examples of this are Merry-Go-Round's Cignal and Melville's Free Fall stores, both of which carry upscale fashion ready-to-wear for young, prosperous men and women.

At Cignal, "The target market is the 20- to 40-year-old affluent professional, someone who has the money to spend and wants to look nice after hours," says Merry-Go-Round marketing director Gina Adams. Two Cignal stores are already in operation on the East Coast, with a total of 10 expected to open during the current fiscal year. Merry-Go-Round's real estate philosophy for Cignal is to select prime locations of about 2,000 sq. ft. in markets offering a large, affluent professional population.

Specialty
Existing stores: **Mean: 19,190 sq. ft.**
Amount of selling space available in typical store: **Mean: 15,717 sq. ft.**
Stores opened in 1984-85: **Mean: 15,510 sq. ft.**
Amount of selling space available in stores opened in 1984-85: **Mean: 12,718 sq. ft.**
Cost to erect a building shell within last 12 months: **Mean: $32.70 per square foot**

Source: *Chain Store Age Executive research*

In terms of design, the stores feature pale gray coloring and ash wood fixtures and flooring.

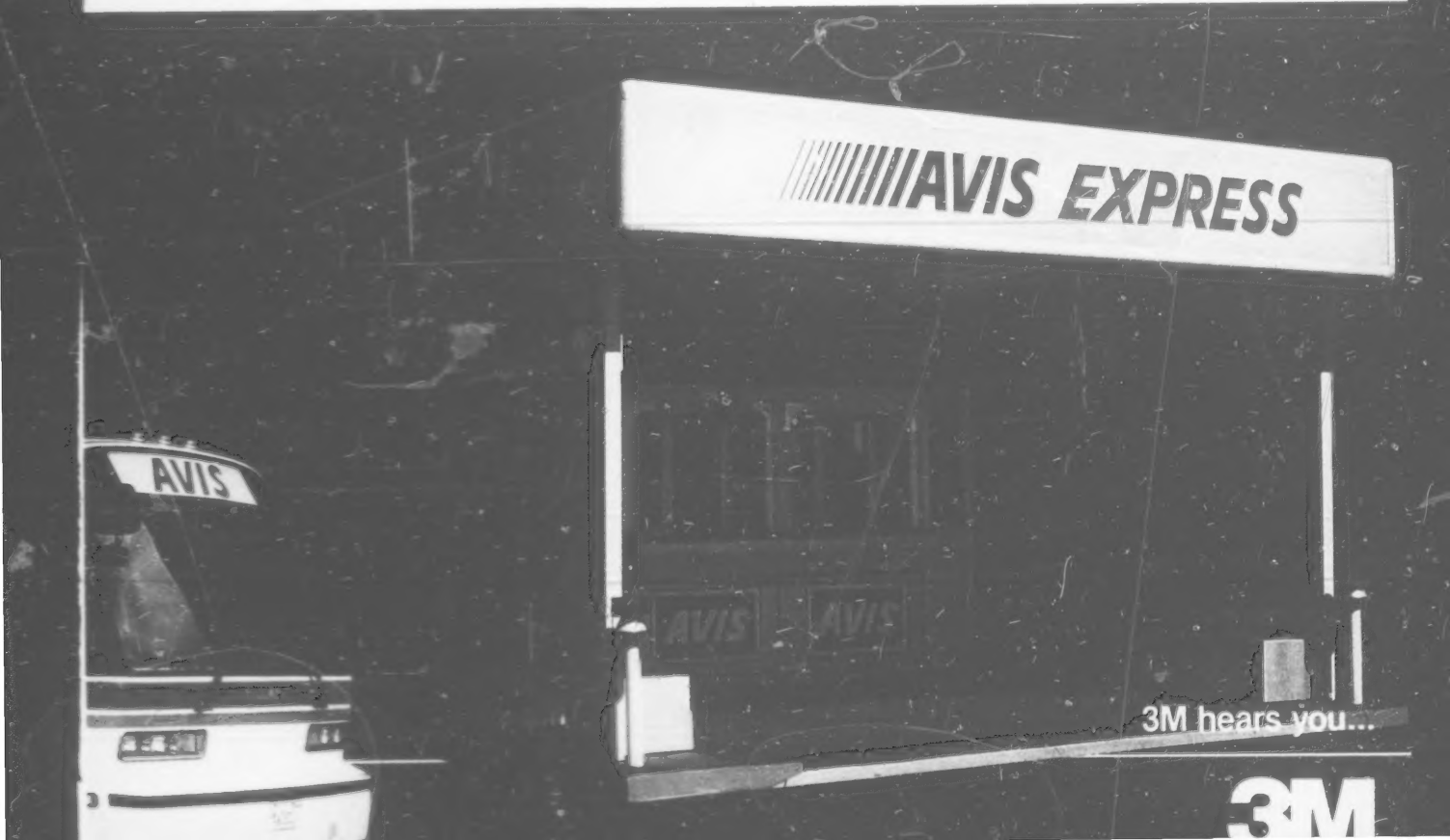
"It's all done in very, very soft colors, which makes the store open up. There's nothing heavy in the store. The ash wood is very light. It makes the store look much larger than it really is," says Marvin Rice, vp-store design and construction at Towson, Md.-based Merry-Go-Round.

He points out that 90% of the lighting is done with low voltage fixtures. "I think the lighting is tremendous in this store," he says. "It accents with a particular element of light directly on the display and gives it tremendous illumination."

Melville's Free Fall, similar to Cignal in the market it hopes to attract, features such unusual architectural details as doric columns, a chain-link ceiling and a pastel oak floor.

"We like to consider it surrealistic," says a Melville spokesman. One of its surrealistic items is canvas fitting rooms with solid doors—a reversal of the traditional design. "It's very flexible," she adds. "We have movable walls that enable us to create little shops."

Melville, which operates two Free Fall units in New Jersey under its Chess King division, plans to have five open by the end of the current fiscal year. ■



Gemco's prototype in Rowland Heights, Calif., uses elements of the new design "vocabulary."

Chains respond to demands for upscale environment

"Many discounters are, of necessity, going upscale. What's happened here is that television has taught people that they don't have to shop in an unattractive environment," states Harmon Miller, president of Miller/Zell, an Atlanta-based design firm.

Given the redundancy of merchandise carried by discount stores, a consumer's decision about where to shop hinges more and more on shopping environment. Unlike department stores, where the primary motive for remodeling and upscaling is profit, followed by competition, for discount stores it's the other way around. These stores not only compete against one another, they also come head-to-head against membership warehouses, off pricers and department store promotional merchandise.

As a result, a growing number of discounters are allocating funds to upgrade from the traditional, spartanly furnished, boxlike units. "A discount store such as ours is evolving because the customer is more attuned, more educated. She's more aware of what's going on," says William Yonke, director of store planning and visual merchandising for S. E. Nichols, a chain currently undergoing a remodeling (*Chain Store Age Executive*, March 1985).

"Consumers are more attuned to trends, price and the fact that they don't have to shop in dirty stores," Yonke says, voicing his agreement with Miller. "And discounters are notoriously filthy stores. For discounters to continue their old ways, they're going to go out of business very quickly. Customers want to see value for their dollar and a nice shopping environment."

Discount
Existing stores: **Mean: 71,720 sq. ft.**
Amount of selling space available in typical store: **Mean: 57,232 sq. ft.**
Stores opened in 1984-85: **Mean: 58,390 sq. ft.**
Amount of selling space available in stores opened in 1984-85: **Mean: 46,537 sq. ft.**
Cost to erect a building shell within last 12 months: **Mean: $25.20 per square foot**
Source: *Chain Store Age Executive* research

It is this blending of value and the improvement of the shopping experience that discounters are striving for. While the terms "upgrading" and "upscaling," are bandied about, discount store planners are quick to point out that those terms don't accurately convey what's going on.

"Its not so much upgrading. That's not the right word," says Ken Walker, president, Walker Group/CNI, a New York-based design firm. "You don't want to upgrade. You want to be a discounter not a department store and there's no reason to change what you are."

While the aim of typical discount store remodeling sounds similar to the aim of a department store remodeling, the end result is different. Both consist of improving circulation patterns, graphics, merchandise presentation and lighting. "But I don't think the discounters are learning these tricks from the department stores," Walker claims. "I think they're coming up with their own vocabulary. They're refining details, making stores graphically better and softening their image somewhat."

Pointing out the differences between a department store's and a discount store's treatment of the same merchandise, Yonke cites a housewares department. "A typical [department store] housewares department has a mannequin dressed in an apron with hanging pots and pans and flowers, forming a vignette. It really doesn't say what the department has other than 'pretties.'"

A discounter would tend to do the same department with a graphic approach to brand names and products in use, he says. "I don't see discounters just putting up a display" or they're close to becoming department stores.

While both retail classifications are giving more attention to ceilings, discounters are tending to merely paint them, leaving the one-level, 2x4 lay-in tiles. Strip lighting is still the most economical and therefore commonly used, says Yonke, but now the strips may be in recess troughs rather than exposed. "I don't think you'll see a discounter doing a renovation or a powder puff and pulling out his existing lighting," he states.

Track lighting, so common in today's department store, could never become a reality in discount stores because there's no one employed to maintain it, according to Yonke. Once a maintenance person changes a bulb, a professional would be required to redirect the beam.

Another area being refined is flooring. The traditional one-surface floor will soon be a thing of the past. Race track aisles are replacing the symmetric grid pattern and with them come two-surface floors. Particularly popular is a combination of tiles and carpeting, and, with the typical discount store mentality, carpeting is chosen for its wearability.

It is these sorts of improvements that set the successful chains off from the rest, say store planners. "There are very few chains that aren't doing this that are still managing to stay in business," Miller points out. ■

Many store planners indicate a general feeling of satisfaction with the way they look today; they respond to competition by diversifying.

Drug stores may be content, but are the customers?

Unlike other retail segments, the drug store industry has yet to undergo a design transformation. Ceiling, lighting and flooring materials, as well as traffic patterns, are nearly carbon copies of their decade-old counterparts.

While department and discount chains experiment with upscaling their designs, many drug store retailers indicate they're quite comfortable with the way they look today. Calls to drug store store planners reveal a general feeling of satisfaction with their ability to meet customer expectations.

"We're up to par with what we like," says one planner when questioned how his industry's designs stack up against other retailing segments. His assessment is common of others. "We feel that what we have is what we desire. Jon Greenburg [an independent store designer] wouldn't say so but we're satisfied."

This same store planner also doesn't feel the average drug store is likely to change much in the coming years. "I think five years from now when you look at a drug store, it will pretty much look the same as it does today."

Unfortunately, this reluctance to change is putting drug stores at a competitive disadvantage, claims one outspoken drug store planner. Competition, notes James Cline, director of store planning for Ribordy Drugs, is coming from many other types of stores—other drug stores, discounters, deep discount drug stores, grocery stores, warehouses.

And, "even the bargain basement retailer" has discovered the importance of design. Drug stores, on the other hand, have either not recognized it or have chosen to ignore it because they haven't felt it was necessary.

"The [traditional] drug store is probably patterned after the first generation of supermarkets of the 1950's and 1960's," he says. "I don't think we've changed too much since then . . . I think we'll find out the importance of design as competition from other types of stores gets greater."

Up until now, Cline notes, drug stores have been responding to competition by diversifying—opening deep discount drug stores, auto parts stores and stationery stores. The upscaling of drug chains, however, has been slow in coming.

Contrary to his design peers, Cline expects the drug industry will be forced to begin reformat'ing its stores. Competitive pressures, the need to turn merchandise more frequently, to increase the average sale and keep customers in the stores longer, will all become factors to be addressed in the near future.

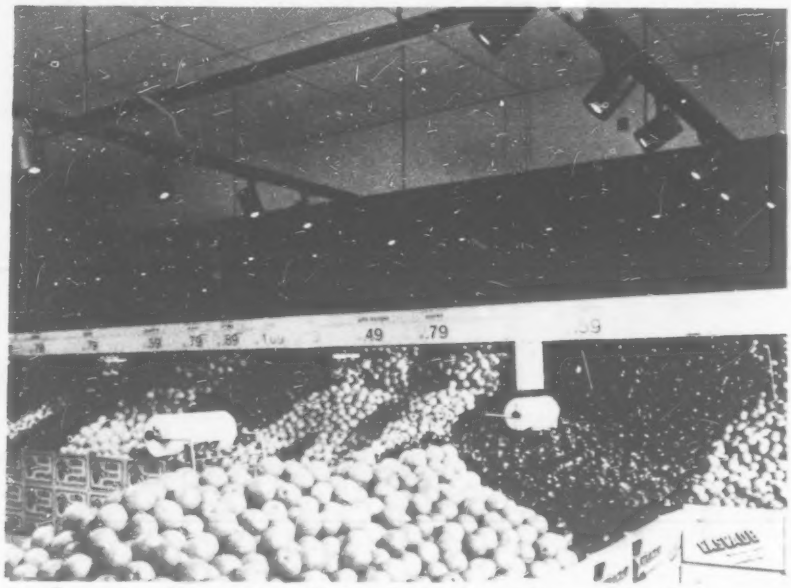
At that point, he says, we can expect to start seeing some design elements already in use by other retailers. Carpeting, for example, may find its way back into drug stores (which Ribordy has already added).

"As the major drug chains have phased out carpeting, the rest of the world has found it," he observes. "It's become a rule rather than an exception. Carpet tiles will be something to watch because they can be used to upscale, while still allowing you to control the maintenance problems."

Lighting is likely to be upgraded, Cline envisions, when manufacturers can perfect the color rendition of newer, economical lighting systems. It will enable stores to achieve a fashion image while keeping energy costs under control. The use of color will become more prevalent as will more innovative presentation techniques.

Finally, look for drug stores to start adopting more sophisticated aisle patterns as retailers try to get away from row after row of parallel fixtures—fixtures that are likely to start looking more like a department store's and less like a supermarket's. ■

Drug
Existing stores: **Mean: 11,020 sq. ft.**
Amount of selling space available in typical store: **Mean: 8,915 sq. ft.**
Stores opened in 1984-85: **Mean: 12,690 sq. ft.**
Amount of selling space available in stores opened in 1984-85: **Mean: 10,330 sq. ft.**
Cost to erect a building shell within last 12 months: **Mean: $29.00 per square foot**
Source: *Chain Store Age Executive* research



Installation of new lamps at Dominick's Finer Foods enhanced the appeal of produce.

Bright ideas in design bolster bottom line for supermarkets

This year supermarkets may well be taking the lead in design innovation. They are looking to design to create an image and to reach out to various consumer segments. Most important, they are hoping that design innovation will bolster the bottom line.

Therefore, it's logical that in making myriad design choices, the most important consideration is presenting the merchandise in the most advantageous and alluring manner possible. That's where lighting comes into play.

Certainly such other retail classifications as department stores and specialty stores are well aware of the difference the right lighting choices can make in merchandising their products. Manufacturers such as General Electric, GTE Sylvania, North American Philips and Miroflector are bringing out products catering to these needs.

The three major roles of lighting in merchandising certainly haven't been forgotten: making sure there is sufficient lighting for close appraisal of the merchandise, using light to attract the customers and, perhaps most important of all, creating the desired store atmosphere.

The last consideration was particularly important to Dominick's Finer Foods, the Chicago-based chain where the strategy concentrates on selling food and related items with style—and at a palatable price point. Therefore, when deciding what lighting to use for major remodeling projects and new store construction, involving some 19 sites, the chain had two considerations in mind.

Obviously, the merchandise has to be seen to be sold—with lighting particularly important to the selling of Dominick's extensive produce selection. Second, because Dominick's faces fierce competition and therefore the need to keep its own prices down, dollar saving is also a critical factor.

Charged with making a lighting recommendation of this magnitude, Charles H. (Charlie) Burgess, Dominick's electrical engineer made a careful study of a variety of lighting catalogs, finally choosing fixtures from Halo Lighting, a division of McGraw-Edison.

Among the reasons for his selection was the unusual type of illumination supplied by these fixtures, designed for Halo's Power-Trac lighting system. They give off a white light with precise color rendition (a vital consideration in all types of in-store lighting applications).

These lamps have built-in reflectors with a special dichroic coating. This means that all visible light is directed forward with all heat sent out through the back and sides. For added protection, there is a front borosilicate glass lens. Lamp life is as long as 5,000 hours.

Before installation of these lamps took place Burgess decided to experi-

Cost per square foot for interior lighting

	Total	Discount	Drug	Supermarket	Department	Home Center	Apparel Specialty
(Bases)	(180)*	(30)*	(30)*	(30)*	(30)*	(30)*	(30)*
	%	%	%	%	%	%	%
Less than $0.10	3	—	—	7	7	—	7
$0.10-$0.14	3	—	3	3	7	3	—
$0.15-$0.25	4	7	10	7	—	3	—
$0.26-$0.50	17	30	13	10	10	23	13
$0.51-$0.75	7	10	3	13	3	10	3
$0.76-$1.00	12	17	20	3	7	13	10
$1.01-$2.00	22	23	33	23	27	13	13
$2.00+	20	3	13	17	27	13	47
Contracted out to outside service/ handled by mail	1	—	—	3	—	—	—
Don't know/ no answer	10	7	3	13	10	20	7
Refused	1	3	—	—	3	—	—
(MEAN)	($1.20)	($0.86)	($1.14)	($1.13)	($1.38)	($1.02)	($1.64)

*Adds to more than 100% due to rounding

Source: *Chain Store Age Executive* research

Information provided in the physical support systems section of this Census Issue examines the newest materials and developments of equipment used in all categories of retail stores. It also compares costs and lifespans of the equipment and materials. These are broken out by relevant retail categories.

Chain Store Age
Executive

1984 BIG BUILDERS

COMPUTER RETAILING:

Who will be king of the hill?

TWENTY DOLLARS A YEAR (USA)

Chain Store Age EXECUTIVE Volume 60, No. 11/November 1984

CONTENTS

Membership retailing trend takes off 17
This combination wholesale/retail general merchandise market will expand to at least a $20 billion purse in five years.

Kroger stands tough against setbacks, invasions . . 20
The nation's second largest supermarket giant battles financial troubles and market competition.

Retail construction looms large in 1984 26
Top 25 spenders ante up $5.6 billion.

Computer retailing: Who'll be king of the hill? 47
Studies show that by year-end there will be some 4,000 computer stores in operation; 7,200 by 1989.

Floor care programs worth taking a shine to 82

Family Dollar bases growth on formula 86

RETAIL TECHNOLOGY

Ames uses computer system to select store sites . . 57
As traditional methods of scouting new store locations became inadequate, the chain turned to alternate systems.

Survey shows disparity in MIS use by chains 59
Management information systems are used by 100% of all general merchandise retailers, but degree of usage varies greatly.

Keeping inventory in tow at Capital Marine Supply . 66

SHOPPING CENTER AGE

For some tenants, a mall is not a home 73

Galleria of South Bay rises on site of old mall 74
New three-story center will be able to take advantage of a "$160 million plus opportunity" in Redondo Beach, Calif.

4 From the Editor's Desk
8 Washington Commentary
8 F.Y.I.
14 Accounting Views
79 SCA News
80 New Stores & Shopping Centers
80 Shopping Center Real Estate
93 Classified Advertising
94 New Equipment & Services
99 Advertising Index
100 People in the News
100 SPECS Forum

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REGIONAL OFFICES
NEW ENGLAND, 1 Gateway Center, Newton, Mass. 02158
617-527-6394
Robert T. Perry, VP/District Manager

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312-644-8668
James T. deGraffenreid, VP/District Manager

WEST, 606 N. Larchmont Blvd., Los Angeles, Calif. 90004
213-464-8321
John Donoghue, District Manager

FAR EAST, Diamond-Friedman Ltd.
Chain Store Age News Japan
1-4-2 Kasumigaseki, Chiyoda-ku
Tokyo, Japan
504-6750

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Chain Store Age EXECUTIVE November 1984

Denver-based Pace Membership Warehouse carries a complete line of hard goods, including tires and automotive accessories.

MARKETING

Membership retailing trend taking off

Combination wholesale/retail general merchandise market may reach $20 billion in five years

If imitation is the sincerest form of flattery then no business on earth has ever blushed like the Price Club of California.

Certainly in retailing, there has never been such a proliferation of clones in such a short space of time. The Price Club opened its first unit in 1976 and it has already grown to more than a dozen warehouse stores. Annual sales—in excess of $1 billion—represent the lion's share of the $1.5 billion that warehouse stores are now generating on a national basis.

Experts agree that this combination wholesale/retail general merchandise market will expand to at least a $20 billion purse in five years. It could be much more.

Currently, *Chain Store Age Executive* has identified 13 major chains with a total of 73 outlets *(see chart)*.

When will market saturation occur—and who will prosper after it does—are questions being asked for the first time since these warehouses opened. It has taken eight years for membership retailers to face direct competition in markets such as Seattle, Salt Lake City and Chicago. An industry shakeout is said to be about two years away but hints of more imminent closings are in the air.

Costco and Price Savers both operate wholesale clubs in Salt Lake City. James Sinegal, president of Costco, points out that his chain has competition in Tacoma as well as Salt Lake City, but admits that there have been problems in Salt Lake—where several industry observers say Costco will be forced to close.

Tom Grimm, president of Price Savers Wholesale Club, says, "We are extremely pleased with the success we've experienced in Salt Lake; we couldn't be more pleased."

While warehouses touched every segment of retailing in the markets they entered, the affect on local competition was slight, according to Skip Helm, vp-William Blair. He points out that the membership warehouse operators produced "minimal competitive reaction. They take about 2% of the GAF market."

Helm maintains that "Wholesale is the key to this business, and most of the operators are still coming at this with a retail mentality."

Analysts, industry observers and membership warehouse operators agree that in order to break even in this business, combined annual sales of $25 million to $30 million are necessary. What constitutes an acceptable return on investment is an open question. While the superachievers such as Price Club and Sam's Wholesale Club have racked up annual per-unit sales of $50 million, it may not be mandatory for operations in every market to achieve at that level in the first year.

Although these membership wholesale/retail outlets typically operate on a 10% margin and undersell goods duplicated at discount stores,

Membership clubs

Company	Current locations	Proposed locations	Membership policy	
			Wholesale	Retail
A.J.'s Wholesale Club (Zayre)	Hialeah, Fla. Medford, Mass. Johnston, R.I.	Hartford, Conn.	$20 annual fee—up at 2 additional memberships ($10 each	6% markup
Club Wholesale (Elixir)	Boise, Idaho Las Vegas, Nev.	2 locations	$25 annual fee	5% markup
Costco	Anchorage, Alaska Clearwater, Fla. Fort Lauderdale Tampa Bay West Palm Beach Portland, Ore. Seattle (2) Spokane Tacoma Salt Lake City	Honolulu—10-12 units	$25 annual fee	5% markup
Metro Cash & Carry of Illinois	Chicago (3)	No expansion plans	no fee	5% markup
Money's Worth	Greensboro, N.C.	7 in North Carolina	$25 annual fee	5% markup
Pace	Denver (2) Colorado Springs Tampa/St. Petersburg	Denver Tampa/St. Petersburg (2) Jacksonville Atlanta (3) Augusta Des Moines Omaha Greensboro, N.C. Raleigh Chattanooga Knoxville	$25 annual fee	5% markup
Price Club	Phoenix Mesa, Ariz. Tucson Los Angeles (6) Orange County, Calif. Sacramento (2) San Diego (4) San Francisco (2) Norfolk, Va. Richmond	Albuquerque	$20 annual fee	$15 fee + 8% markup
Price Savers Wholesale Club	Anchorage, Alaska Salt Lake City Seattle Tacoma	Honolulu	$25 annual fee	5% markup
Sam's Wholesale Club	Birmingham, Ala. Jacksonville, Fla. Kansas City, Mo. St. Louis Oklahoma City Charleston, S.C. Dallas (2) Houston (2)	Atlanta Wichita Louisville Tulsa Knoxville Memphis Nashville	$25 annual fee	5% markup
Warehouse Club (joint partnership W. R. Grace)	Chicago Akron Columbus Dayton Pittsburgh	Detroit	$25 annual fee	5% markup
Wholesale Club	Indianapolis Cleveland Milwaukee	Detroit (4) Cleveland	$20 annual fee	5% markup
Wholesale Plus	Fort Lauderdale	—	$25 annual fee	5% markup
Value Club	Austin El Paso San Antonio (3)	—	$20 annual fee	$5 fee + 5% markup

Source: *Chain Store Age Executive*

home centers, department stores, automotive stores and local wholesalers, the narrow sku selection is not serious competition to the overall retail market. The membership organizations probably take a larger portion of the local wholesale business through their sales to small restaurants, groceries, drug stores and offices, but there are no official estimates on this market share.

David Glass, president of Wal-Mart, which operates 11 Sam's Wholesale Clubs, says, "I don't see anybody moving as rapidly as they say. Everyone's talking about lots of units, but I don't see them going in as fast as they say they are."

Some observers put the number of potential markets at between 200 and 400.

Dan Barry, vp-Kidder Peabody, estimates that in their present format these outlets need 400,000 to 600,000 people in their market area to achieve profitability.

Glass points out that in this infant

industry, "We'll see dramatic changes in the next five years."

Retailers tend to be more bullish than analysts and consultants. "The difference in this new concept is that they are primarily wholesale businesses," says Price Savers' Grimm.

"Although the new warehouses are not so different from what went on 20 years ago—like Gulfco," says David Israel, president of Metro Cash and Carry of Illinois, "they were ahead of their time. Back then, groceries were still carried to the car. People were not ready for the self-service concept."

"Before people count the casualties, they should take into account the vitality of this business. Many people have never even seen a warehouse membership club yet," says Walter Teninga, president of the Warehouse Club, a three-unit, W. R. Grace joint partnership based in Chicago, which opened its first unit in 1983 and will operate five by the end of 1984. The ex-K mart and Price Club executive raised $3.5 million with an investor group to form the partnership with W. R. Grace.

Mervyn Weich, a nine-year Zayre employee, is president of BJ's Wholesale Club. It will number three units by year end, and has a five-year plan to open 25 units. While observers are reserving judgment on Zayre's potential impact on the market, its entry displays particular strength and the company is given kudos for the extensive research and planning it undertook before launching its first BJ's.

BJ's units opened their doors with $3 million to $4 million worth of inventory—a level that boosted operators such as Pace to the breakeven point in months. Less successful warehouses often started with only $1 million in inventory. Weich asserts that the goods are "first quality brand name," and analysts figure Zayre has the muscle to maintain top-drawer selection. Weich expects the BJ's units to break even, which he defines as "close to $30 million" in sales per unit, in the first year.

Wholesaling revenues may be the primary goal, but most of the current operators have not achieved the 60/40 wholesale/retail sales ratios they have targeted in homage to the Price Club. Wholesaling sales range between 43% and 80% of industry sales.

David Israel reports 80% wholesale sales at the three-unit, Swiss-owned, Chicago operation that he heads. While Metro Cash and Carry is grouped with other membership wholesale clubs, Israel feels the business is frequently misunderstood. "Small businesses can supply 100% of their needs here with consistent 52-week-a-year selection; most of these businesses are the reverse of ours."

Price Savers Wholesale Club is successfully meeting competition in the Salt Lake City market.

The sales numbers show that other membership operators are not the reverse of Metro, but certainly their emphasis is different. The merchandise allotment underlines that: 50% of mix is dry groceries, 25% is perishable groceries and only 25% is non-food products, while other operators offer more of a retail selection within the limited 3,000 to 4,000 items they typically stock.

Ability to tailor merchandise mix to local demand will be a key to who survives in competitive markets

The ability to tailor the merchandise mix to local demand will be a key to who survives in markets where warehouses meet like competition. Indeed, most of the operators in this business take issue with the idea that membership warehouses rely on "opportunity buying." To the all-important wholesale side of the business, consistent selection is crucial. "Businessmen who run their own businesses have to have lines of supply they can count on," says Henry Haimsohn, chairman of Pace.

At present, players such as Wal-Mart's Sam's Wholesale Club, Pace Membership Warehouse, the Wholesale Club, Pay 'n Save's Price Savers Wholesale Club, Zayre's BJ's Wholesale Club and Costco have not tampered with The Price Club's very successful format and have no plans to do so in the near future.

The format calls for 100,000-sq.-ft. industrial style sites with bare bones fixturing and a minimum of amenities—to keep overhead down to about 8% of sales. The warehouses are not air-conditioned and the interiors are spartan. Manufacturers ship general merchandise that ranges from refrigerators to rubber bands into outlets that receive shipments and stock them in one day.

Advertising is minimal (generally less than 1½% of sales). Usually an opening direct mail campaign is followed by an occasional tightly targeted direct mailing gleaned from closely tracked customer information. Effective choice of customers before opening, and word of mouth after opening, are considered crucial.

MIS and data processing systems are sophisticated in the successful operations of this genre. The concept is simple—universal price look-up systems that track perpetual inventory. Prices are not marked on items but posted above displays while item numbers are entered at point of sale.

The inventory turnover goal is 18 a year—a record that only the Price Club has achieved so far, but that Pace (15), Sam's Wholesale Club (16-17) and The Wholesale Club (14) may duplicate in the next year or so.

Sites are cheap, usually in out-of-the-way industrial areas with rents to match—$2 or $3 per square foot. Land and buildings are leased on a long term basis—generally 10-year leases with renewal options to 25 years or more. Parking for 400 cars is considered *de rigueur*. Start-up costs range from about $5 million to $8 million per unit depending on the location and the level of inventory deemed necessary to open the doors. Shrink is practically nonexistent, the

The Wholesale Club expects to chalk up $150 million to $200 million from its seven units in 1985.

warehouses are densely staffed and each unit has just one entrance/egress door.

Payroll as a per cent of sales is slated for around 4%, but none of the retailers interviewed for this story would name current payroll costs. Staffing levels range from a low of about 70 employees per unit at the Wholesale Club to a high of 200 at Pace Membership Warehouse. And this may be one factor in the relative success of these operations.

John Geisse, chairman of the Wholesale Club, based in Indianapolis, did not plan an instant success. The first unit in his chain grossed $12 million in its first year with a loss of $1.1 million, but that was above plan. Projections to the original investors called for 1984 to be the breakeven year. And Geisse predicts that in 1985, the Wholesale Club will chalk up $150 million to $200 million from seven units, and net earnings of $4 million or $5 million.

Geisse has pinpointed and corrected a few factors that he thinks kept his business from a fast start. "We didn't do things as well as Sam's. We didn't have enough inventory to start. We opened with $1 million." Geisse explains that perhaps his traditional retail thinking got in the way. "My training told me that if you want to do $14 million, start with $1 million in inventory and turn 14 times."

One problem area that is not entirely in Geisse's power to correct is vendor credit. "Most of these businesses—except Sam's and the Price Club—are thinly capitalized." Vendors give strict credit limits to unproven businesses, and that can gum up the works when warehouses need inventory in a hurry to sustain high turns. "A vendor gives us a $1 million line of credit for 30 or 45 days. We can chew up inventory before the bill is due, but he says wait when you're over the credit limit. We have to get vendors to understand."

Getting vendors to understand is not a problem for the operators who have an established retail reputation and capital behind them. Wal-Mart's Sam's Wholesale Club, Zayre's BJ's Wholesale Club, Pay 'n Save's Price Savers Wholesale Club and W. R. Grace's joint-venture Warehouse Club have both a financial and psychological advantage in this regard.

Membership warehouses may not be playing in an open field anymore, but neither are they threatened with extinction and obscurity. Some operators who have experienced difficulty in certain markets still have plenty of other areas to cultivate. As one warehouse operator put it, "Those who deserve to stay in business will." Success will continue to confound the experts. After all, quips Geisse, "No one told Sam Walton that he needed populations of 100,000 to have discount stores; he did it in towns of 10,000." ■

—Molly Brauer

STRATEGY

Kroger stands tough against setbacks and invasions

When Kroger realized that a new market entry was about to move in on its territory, the nation's second largest supermarket retailer was swift to respond.

Price wars were launched, first in Memphis, where Malone & Hyde announced plans to open its first superwarehouse store, and then later in Indianapolis, when Cub Foods, a chain operated by Super Valu Stores, revealed it was moving in. Although these turned out to be expensive battles, Kroger's management was successful in hanging onto market share.

Kroger's price wars in Memphis and Indianapolis helped the chain hang onto market share

Therefore, this is likely to be Kroger's same response to the 200,000-sq.-ft. Hyper Shoppes, also a unit of Super Valu Stores, which opened its doors Oct. 16 in the 350,000-sq.-ft. Bigg's Place Mall in Cincinnati, right on Kroger's doorstep. The store is called Bigg's.

However, this is only one front on which Kroger is battling to come back from 18 consecutive months of disappointing financial results and to be again judged as one of the nation's most innovative and successful supermarket chains. Kroger posted earnings of $127.1 million, or $2.77 a share, in 1983, down 33.9% from $192.1 million, or $4.15 a share in 1982. Sales were $15.2 billion, up 3.2% over sales of $14.8 billion in 1982. Among its other strategies are:

- Achieving sharp reductions in operating costs through the attainment of concessions from many of its local unions;
- Withdrawal from market areas where it is unable to attain such concessions and where growth is seen as stagnant or actually on a downward spiral;
- The deployment of monies gained from the sale of stores in such market areas, into investments where it is hoped that the returns will be higher;
- Entering into the wholesaling arena through an agreement with Wetterau, the nation's third-largest independent grocery wholesaler. This move is intended to allow Kroger to retain a share of the action in certain markets where it has closed down its retail operations;
- Solving some of its problems regarding its manufacturing division through the Wetterau arrangement

Retail construction looms large in 1984

Top 25 spenders ante up $5.6 billion—but only some of that will go toward new construction programs

Encouraged by better financial results and bolstered by increased consumer spending, the most aggressive chains plowed their good fortune into investments for the future. The outcome? A record level of capital expenditures.

In fact, the top 25 spenders plunked down a whopping $5.6 billion this year for new-store construction, remodelings and expansion of existing stores. That represents a 19% increase over the $4.7 billion spent by the top 25 last year.

Once again, Safeway led the pack, with a budget of $639 million—up from $500 million. The nation's largest supermarket chain was slated to build 205 new stores this year, as compared with only 83 the year before, and the basic expansion vehicle is once again the 41,000-sq.-ft. superstore.

Sears, the fourth biggest spender last year, moved up to the No. 2 spot in 1984 on the strength of its plan to invest $573 million at the store level. That's a big hike over the $400 million the company spent last year, and an even bigger jump over the $251 million it spent in 1982. The bulk of Sears' 1984 expenditures are being devoted to major remodelings, which will remake 85 existing locations in the image of Sears' Store of the Future prototype. In addition, the company will launch 14 new locations in the same mold.

J. C. Penney also moved up—from the fifth spot to the third. In 1984, Penney invested $500 million, as compared with the $443 million it expended the year before. This represents some 200 updates of existing department stores as well as 47 new Penney stores and 20 new Thrift Drug stores.

Federated passed Kroger to tie Dayton Hudson for fourth place. This year, the diversified retailer will invest $400 million in capital programs, a markedly more aggressive stance than the one it took last year, when it spent only $325 million. That's the bill for more than 2 million sq. ft. of new retail space and a spate of redo's. But it should be noted that Federated's 1984 expenditures are still less than the $421 million that the corporation spent in 1982.

Some of the chains lower down on the list showed some even more impressive increases in their capital budgets. The May Co., for example, slated $250 million for expenses in 1984, as compared with $140 million in 1983. Wal-Mart beefed up its budget from $90 million to $200 million. R. H. Macy more than doubled its capital expenditures to $175 million from $80 million, and Albertsons went from $95 million in 1983 to $160 million in 1984.

When it comes to gross additions to space, however, Wal-Mart is again the undisputed champ. In 1984, the much-heralded Sunbelt discounter will tack on a whopping 7.8 million sq. ft. of new store space—a marked increase over the 6.4 million sq. ft. it added last year.

Wal-Mart's expansion this year is coming in the form of 105 Wal-Mart discount stores and six additional Sam's Wholesale Clubs (the chain's entry into the membership club phenomenon). What's more, the Bentonville, Ark.-based retailer will enlarge or relocate some 25 units.

The pay-off? Management predicts about $6 billion in sales for the year ending January 1985 and that would be a $1.5 billion improvement over the previous fiscal year's volume.

Safeway moved ahead of Dayton Hudson and Kroger to take over the No. 2 slot in new construction with some 6.7 million sq. ft., but Dayton Hudson also finished in the money with 3 million sq. ft. of new space.

Even though that level is down

Capital expenditures

	1984 (000)	1983 (000)
1. Safeway	$639,000	$500,000
2. Sears Roebuck	573,000	400,000
3. J. C. Penney	500,000	443,000
4. Federated	400,000	325,000
5. Dayton Hudson	400,000	475,000
6. K mart	380,000	320,000
7. Kroger	275,000	410,000
8. May	250,000	140,000
9. Wal-Mart	200,000	90,000
9. American Stores	200,000	140,000
11. Winn-Dixie	180,000	165,000
12. R. H. Macy	175,000	80,000
13. Albertsons	160,000	95,000
14. Lucky	152,000	140,000
15. Toys "R" Us	125,000	90,000
16. Stop & Shop	120,000	125,000
17. Associated Dry Goods	110,000	85,000
18. Supermarkets General	110,000	110,000
19. Carter Hawley Hale	105,625	138,000
20. Zayre	100,000	72,000
21. A&P	97,500	75,000
22. Melville	93,000	85,000
23. Jack Eckerd	82,400	78,468
24. Allied Stores	80,000	160,000
25. Payless Cashways	80,000	62,500

Source: Chain data and *Chain Store Age Executive* estimates

considerably from the 5.3 million sq. ft. of retail property it built in 1983, Dayton Hudson's plans are still ambitious by most standards: 19 new Mervyn's, 12 new Target discount stores, about 70 new bookstores under the B. Dalton and Pickwick logos and four new Lechmere locations in New England.

A couple of retailers that fell off the new-space list last year and returned in 1984 were R. H. Macy and A&P. The former accomplished this by launching four new stores this year, including a Davison's in Gwinnett Place in northeast Atlanta and the company's first branches in Houston, Texas. Altogether, Macy's will build 770,000 sq. ft. of new space this year—netting out at 670,000 sq. ft. after the closing of an antiquated 100,000-sq.-ft. store.

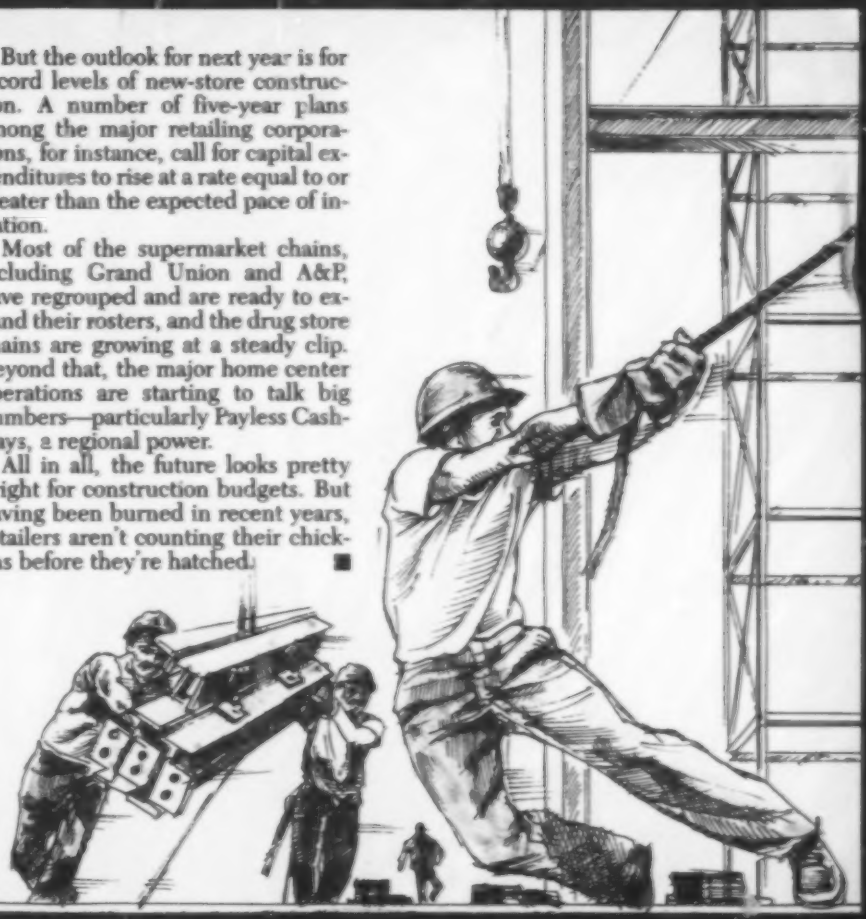
A&P rejoined the ranks of the Big Builders by embarking on a program that is expected to add 800,000 sq. ft. to its store base by year end. As the company intends to refrain from shuttering any existing units, A&P should finish the year with 1,022 stores.

Taken together, this year's top 25 on the new construction chart added 50.1 million sq. ft.—a little bit less than the 53.1 million sq. ft. built by the top 25 in 1983, due to the increased emphasis on remodels.

But the outlook for next year is for record levels of new-store construction. A number of five-year plans among the major retailing corporations, for instance, call for capital expenditures to rise at a rate equal to or greater than the expected pace of inflation.

Most of the supermarket chains, including Grand Union and A&P, have regrouped and are ready to expand their rosters, and the drug store chains are growing at a steady clip. Beyond that, the major home center operations are starting to talk big numbers—particularly Payless Cashways, a regional power.

All in all, the future looks pretty bright for construction budgets. But having been burned in recent years, retailers aren't counting their chickens before they're hatched. ■



Gross square footage added

	1984 (000)	1983 (000)
1. Wal-Mart	7,795	6,378
2. Safeway	6,700	4,340
3. Dayton Hudson	3,000	5,300
4. Kroger	2,489	5,033
5. K mart	2,400	3,400
6. Melville	2,148	2,200
7. Federated	2,088	2,527
8. Lucky*	2,077	1,423
9. Winn-Dixie	2,010	1,318
10. Toys "R" Us	1,800	1,100
11. May	1,500	1,178
11. Sears, Roebuck	1,500	1,000
13. U.S. Shoe	1,400	1,500
14. Albertsons	1,300	1,800
15. Zayre	1,280	2,000
16. American Stores	1,200	600
17. Associated Dry Goods	1,150	2,154
18. J. C. Penney	1,140	1,000
19. Stop & Shop	1,080	2,090
20. Jack Eckerd	969	850
21. Rite Aid	960	850
22. Service Merchandise	855	800
23. A&P	800	—
24. R. H. Macy	770	443
25. Payless Cashways	740	400

*1984 figure does not allow for sale of 240 Pic-A-Dilly and It's-A-Dilly stores to The Limited, which had been agreed upon at presstime

Source: Chain data and *Chain Store Age Executive* estimates

Net square footage added

	1984 (000)	1983 (000)
1. Wal-Mart	7,700	6,000
2. Safeway	6,000	4,800
3. Dayton Hudson	3,000	5,300
4. K mart	2,400	3,000
5. Winn-Dixie	2,010	510
6. Federated	2,000	1,825
7. Melville	1,958	2,000
8. Toys "R" Us	1,800	1,100
9. Lucky*	1,508	(7,900)
10. U.S. Shoe	1,385	1,500
11. Zayre	1,280	1,952
12. May	1,100	1,178
13. American Stores	1,000	600
14. Albertson's	1,000	1,500
15. Rite Aid	960	780
16. Jack Eckerd	960	830
17. Service Merchandise	855	800
18. Stop & Shop	833	1,690
19. A&P	800	—
20. Payless Cashways	740	400
21. J. C. Penney	730	800
22. Ames	720	2,334
23. R. H. Macy	670	423
24. Best Products	600	800
25. Allied Stores	459	838

Source: Chain data and *Chain Store Age Executive* estimates
*1984 figure does not allow for Lucky's sale of 240 Pic-A-Dilly and Its-A-Dilly stores to The Limited, which had been agreed upon at presstime
( ) Net loss

Safeway tops list again

Safeway's building program should result in an addition of at least 5.7 million sq. ft.

Safeway Stores once again holds the top spot among retail chains in capital expenditures.

By the time fiscal 1984 draws to a close at the end of December, Safeway expects to have fully utilized a budget of approximately $639 million, up 18% from Safeway's budget of $541 million in 1983 when the supermarket giant also outspent all other retail chains.

Like other supermarket companies, Safeway continues to invest substantial sums in the renovation and expansion of existing stores. However, at a time when many other chains have pulled in their horns somewhat when it comes to new store construction, it is also continuing to be aggressive in opening new stores, with a total of 205 planned for the current year. This is up a whopping 41.4% from last year when Safeway was also among the most expansion-minded chains in the industry.

As was the case in 1983, Safeway continues to emphasize "new business" stores which are located in communities or areas not previously served by Safeway. Eighty-three of these stores opened last year.

Budget rises 18% this year

	1984	1983
Stores in operation at end of calendar year	2,898	2,687
Total stores added in calendar year	271[1]	145
Square footage added in calendar year	5,708,000[2]	4,205,000
No. of stores closed	80	92
Total capital expenditures	$639 mil.	$541 mil.

[1]Includes acquisition of 43 Weingarten stores and 23 Thriftimart stores
[2]Does not include square footage added through 1984 acquisitions
Source: Chain data and *Chain Store Age Executive* estimates

Based on a reported average store size of 27,849 sq. ft., Safeway's store building program should result in an addition to gross square footage of at least 5.7 million sq. ft.

In actuality, this is likely to be somewhat larger as Safeway shows signs of continuing to concentrate on the opening of superstores. By definition, these exceed 35,000 sq. ft. in size and at Safeway they average 41,052 sq. ft. During 1983 Safeway opened 70 superstores.

However, in addition to store construction (and expansion) by the end of this year Safeway will have sharply increased its supermarket store count through an aggressive acquisition program. It began the year by purchasing 43 of Grand Union's Weingarten stores, approximately 30 of which are located in Houston, another nine in eastern Texas and seven in southern Louisiana. Then, in March of this year, it acquired 23 Thriftimart stores in Los Angeles.

In addition to the active expansion of its supermarket operations, Safeway is continuing its program of diversification with further expansion of its Liquor Barn operation (which totaled 90 units at the end of 1983) and its new DFL (Drugs for Less) experiment. With stores already in place in Dallas, Houston and Oklahoma City, Safeway is using DFL as a means of evaluating the potential of the deep-discount drug store business (*Chain Store Age Executive*, January 1984).

Like other supermarket chains, Safeway is, of course, well aware of the potential threat to its more traditional business from the superwarehouse stores. However, in this case, instead of waiting to judge what the impact might be, it is already gaining first-hand experience in operating such stores.

Safeway's latest move came in Florida where in June it opened an 84,000-sq.-ft. Pak 'n Save superwarehouse store in Tampa. This is being operated through Brentway Inc., a Safeway subsidiary acquired last year as part of Safeway's purchase of Brentwood Markets. ■

The future Sears is here today

The Sears Merchandising Group has seen the future and it is now.

The company's plans to refurbish its stores into Stores of the Future is in full swing.

Under the program, more than 600 stores will be renovated and 62 stores built during the five-year period between 1984 and 1988, at a cost of $1.7 billion.

Following the opening of the prototype Store of the Future in King of Prussia, Pa., last year, Sears continued the program to end the year with 12 Stores of the Future. Seven were newly built and five remodeled. Of those seven newly built stores, four were in new markets and three were relocations.

During 1984, 85 stores are being remodeled into the new configuration. In addition, the company is opening 14 new Stores of the Future—three in new markets, 10 relocations and one enlargement.

Because Sears is already in most major markets, the company is focusing its attention on remodeling and renovating its existing stores, according to a spokesman for the company. Selling space is being added in existing facilities rather than through the opening of new stores.

Although the opening of last year's seven stores contributed over 1 million sq. ft. of space, the 25 closings resulted in a net reduction of 2 million

Sears' plans in full swing		
	1984	1983
Stores in operation at end of calendar year	818	812
Total stores added in calendar year	14	7
Square footage added in calendar year	1,682,824	1,075,795
No. of stores closed	16	25
Total capital expenditures	$626 mil.	$360 mil.

Source: Chain data and *Chain Store Age Executive* estimates

sq. ft. Sears Merchandising Group ended last year with approximately 112 million sq. ft. of retail department store space.

Similarly, this year's opening of 14 stores is adding slightly more than 1.6 million sq. ft. Offsetting this is the closing of 16 stores for a net reduction of 631,814 sq. ft.

In addition, the company added seven Sears Business Systems Centers in 1983, bringing to 50 the total number of centers in operation at year end. The centers carry electronic equipment for small business needs.

This year, the company is opening 50 Sears Business Systems Centers and already has 40 more openings scheduled for 1985. Most will be located in larger metropolitan areas and some will even be combined with existing Sears retail stores, depending on space and market demographics.

Last year's capital expenditures of $360 million have been increased to $626 million in 1984. The company estimates that approximately $102 million will be spent on opening the 14 new Stores of the Future. The balance of funds will be used primarily to convert some 85 existing stores into the new configuration, improve customer service at point of sale and open the 50 additional Sears Business Systems Centers. ■

BIG BUILDERS/J. C. PENNEY

Major updating at Penney

The second full year of J. C. Penney's repositioning program has seen the full-scale modernization of approximately 34 more of the company's largest and most productive stores.

Last year, the company completely modernized 40 of its larger stores located in regional malls in major markets. In addition, it updated 160 stores last year as an interim step before modernization.

This year, about 200 stores underwent updating, which usually includes the reallocation of space to accommodate the new merchandise mix. At the same time, a more modern look is achieved through minor refixturing and recarpeting.

Penney's construction activity is due to a repositioning program that encompasses not only a revamping of merchandise carried, but also a new, more contemporary look for all its stores. The modernization program ranges from the complete reconstruction of interior space to the updating of individual departments.

To fund the program, the company's projected capital expenditures

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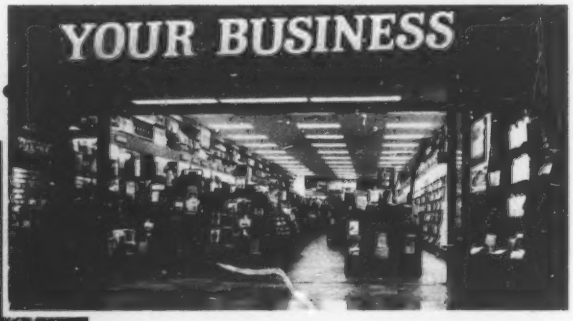

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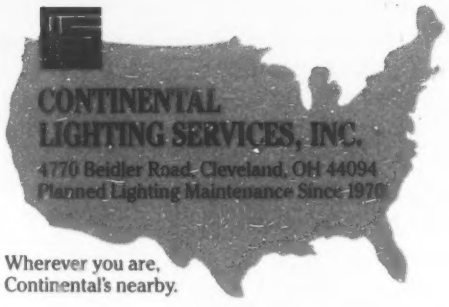

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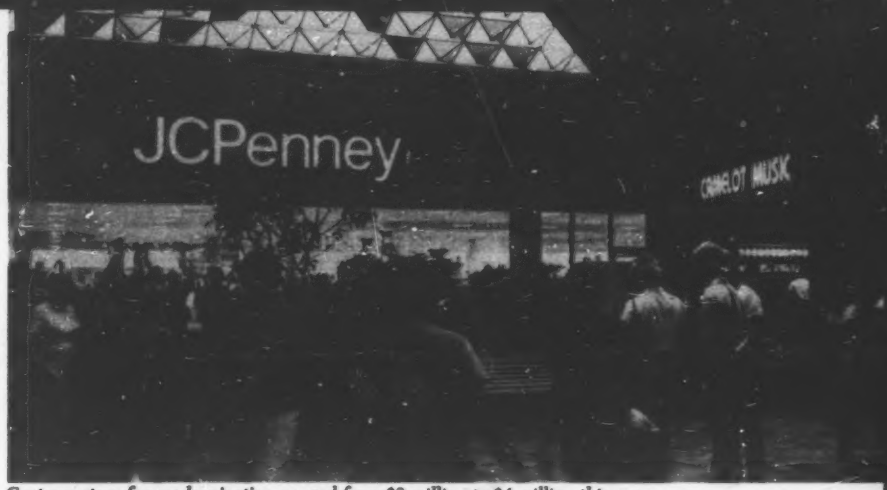
A more modern look		
	1984	1983
Stores in operation at end of calendar year[1]	1,991	1,953
Total stores added in calendar year	67	43
Square footage added in calendar year	1,140,000	1,000,000
No. of stores closed	62	71
Total capital expenditures	$550 mil.	$443 mil.

[1]Includes J. C. Penney and Thrift Drug stores
Source: Chain data and *Chain Store Age Executive* estimates



Cost per store for modernization ranged from $3 million to $4 million this year.

for the five-year period between 1984 and 1988 is expected to total an estimated $2.5 billion, of which $1.5 billion will be spent on updating its stores.

The estimated cost per store for modernization this year ranged from $3 million to $4 million, as compared to last year's $2 million to $3 million. The increase, according to the company, relates to the fact that larger stores were worked on in 1984.

While Penney notes that "physical expansion is important to future profitability," the company is presently looking more toward the improvement of productivity in existing space. To this end, the company spent $276 million of its 1983 capital expenditures of $443 million on modernizing and refurbishing its stores.

While a company spokesman could not confirm 1984's capital expenditures, it is expected to be somewhat more than last year's, with a similar emphasis of funds on modernization.

Last year's opening of 43 stores was divided between Penney units and Thrift Drug stores; 35 Penney stores were opened, while 69 were closed. Eight Thrift Drug stores opened, two were closed.

At year end, the company was expecting to open 12 department stores in regional shopping centers and 35 smaller stores in selected geographic markets during 1984. Also, 20 Thrift Drug stores were slated for opening this year, for a net addition of 730,000 sq. ft. of new store space. ■

BIG BUILDERS/FEDERATED

Federated concentrates on existing space

In 1984, Federated Department Stores will be shifting gears somewhat. Last year, only $57 million of the corporation's $300 million capital expenditures budget was devoted to expansions, remodelings and major maintenance programs in existing stores, while the remainder went toward the opening of some 2.4 million sq. ft. of new selling space. This year, Federated has earmarked a whopping $117 million for facelifts and overhauls, while adding only 2.1 million sq. ft. of new space.

It's plain that expansion is slowing down a notch while Federated does what many other smart retailers have done—placed additional money in the remodeling kitty. In recent years, most retailers have concluded that the return on investment is greater in reworking outdated, existing units than in launching new ones. This is especially true in the department store area, where the dearth of profitable sites and pressure from specialty store retailers have combined to limit new-store opportunities.

On the other hand, 2.1 million sq. ft. of new space is nothing to sneeze at. Some 50 new-building projects are slated for completion in 1984.

Shifting gears		
	1984	1983
Stores in operation at end of calendar year	600	581
Total stores added in calendar year	50	60
Square footage added in calendar year	2,000,000	2,300,000
No. of stores closed	1	13
Total capital expenditures	$400 mil.	$325 mil.

Source: Chain data and *Chain Store Age Executive* estimates

Bloomingdale's, for instance, will open a store in Miami this year. At the end of 1983, "Bloomie's" boasted 12 department stores in the Northeast and one in Dallas, Tex. The Dallas unit was its first foray into the Sunbelt, and the Miami store will be its second.

Rich's, Federated's department store entry in the Atlanta market, is also building a new branch in 1984—but it's a little bit closer to home. Rich's new store, its 18th in the Southeast, will do business in Atlanta. In addition, says a spokesman for the corporation, Rich's is involved in a heavy remodeling schedule.

Houston-based Foley's is another Federated chain that's in an expansion mode this year. Not only will Foley's open a department store in nearby Deerbrook Mall—its 12th in the Houston vicinity—it will also enter a new trading area, College Station, Tex., with "a store designed to meet the needs of the customer in this smaller market."

Goldsmith's, headquartered in Memphis, Tenn., is slated to complete a major remodeling of its Oak Court branch, one of the largest retail stores under one roof in the entire mid-South. This particular remodeling is an effort that began last year.

Bullock's, out of Los Angeles, is also investing in the remodeling route: last year, the chain revamped one store and began renovation on two others, in Northridge and Pasadena. The latter two were expected to reach completion in 1984, and the Century City branch was likewise tagged for an overhaul in the current fiscal year, ending January 1985. ■

Growth plan covers five years

Target closed out fiscal 1983 with more than $3 billion in annual sales and 205 stores.

Dayton Hudson cautious

	1984	1983
Total stores added in calendar year	105	113
No. of stores closed	0	0

Source: Chain data and *Chain Store Age Executive* estimates

This year, Dayton Hudson increased its capital expenditure program to $400 million, as compared with $377 million it spent last year (including new leases). About 105 new stores will emerge from that program, according to a spokesman for the corporation, and they'll represent about three million additional square feet. It's all part of a five-year plan to spend $2.5 billion through 1988.

The major recipient of that corporate largesse will be Mervyn's, the high-flying chain of "value-oriented" department stores that amassed $213 per square foot in sales in fiscal 1983, ended Jan. 28, 1984. In 1984, Mervyn's is adding 19 stores, including units in two new markets—Houston and Seattle/Tacoma. If all goes according to plan, the chain will encompass 128 locations with nearly 10 million sq. ft. by year end.

Target is also carrying out an ambitious expansion program. The corporation's aggressive discount operation closed out fiscal 1983 with more than $3 billion in annual sales and 205 stores. This year, plans call for 12 new units—including Target's first store in Lincoln, Neb., and a five-store blitz in Phoenix. The other half-dozen new stores are opening in Milwaukee, Los Angeles, Minneapolis, Oklahoma City and Denver.

But the most explosive growth that Dayton Hudson will engineer this year will actually take place under the Pickwick Books logo. Dayton Hudson's newest entry in the retail book market, Pickwick—a discount bookseller operation that the corporation still refers to as a "test"—will expand to the tune of 20 new units this year, for a total of 24.

Nor is B. Dalton, the corporation's well-established chain of full-price bookstores, being ignored. After adding 39 stores in 1983 to finish the year with a total of 701 units in 47 states, the District of Columbia and Puerto Rico, B. Dalton is launching about 50 new stores this year.

Lechmere, Dayton Hudson's New England-based hard lines retailer, will concentrate a large portion of its capital budget on remodeling. With three of its six stores recently overhauled, the remaining units were scheduled to undergo facelifts in the current year. In addition, Lechmere will bring four new stores on-stream by the end of next year.

The department store base on which the rest of the corporation was built is perhaps the only division that will not be adding stores this year. The corporation currently operates 54 department stores and has not changed that total in recent years. Operating under the Dayton's, Hudson's, Diamond's and John A. Brown logos, the stores embrace more than 10 million sq. ft. of retail space. ■

CHH cuts new store openings

The sale of Carter Hawley Hale's more than 800-unit Waldenbooks chain this past year has dramatically altered the company's square footage expansion, while estimated capital expenditures remain stable.

A multichain corporation with 1,085 stores in 1983, Carter Hawley Hale expects to end this year with 265 stores, roughly 24% of the number of stores it had a year earlier.

New store openings for this year also reflect the Waldenbooks sale. The 72 openings during 1983 predominantly consisted of the 3,000-sq.-ft. bookstore units. All told, last year, Carter Hawley Hale opened 51 Waldenbooks, 14 Contempo Casuals and seven department stores.

This year's 26 openings, slightly more than one-third of last year's, consist mainly of the slightly larger (3,100 sq. ft.-6,200 sq. ft.) Contempo Casuals units. Since the company purchased the then-79-store women's sportswear chain in 1979, its goal has been to expand nationwide.

The strategy calls for expansion into new markets throughout the South and the Midwest. By year-end, Carter Hawley Hale will have opened 24 Contempo Casuals, one Neiman-Marcus and one Emporium Capwell. Thirty Contempo Casuals are already slated to be opened in 1985.

New square footage has been cut in proportion to new store openings: 376,000 sq. ft. in 1984 vs. 1.1 million sq. ft. a year prior.

Despite the drastic reduction in new store openings, capital expenditures remained the same during 1984.

The 13 store closings that occurred in 1983 were slashed to only three this year. ■

Expenditures remain stable

	1984	1983
Total stores added in calendar year	26	72
No. of stores closed	3	13

Source: Chain data and *Chain Store Age Executive* estimates

Kroger cuts back 1984 building program

The Kroger Co., formerly one of the most aggressive supermarket operators when it came to investing heavily in the opening of new stores, has cut its 1984 capital expenditures budget for the second consecutive year.

Plans call for approximately $275 million to be spent during the current year on the construction and/or expansion of Kroger's food, drug and convenience store operations which also include the Dillon Cos., acquired by Kroger in early 1983.

This budget is down 25% from the $366.9 million spent last year when, in turn, the investment was 20% below 1982's $464.4 million budget. However, the 1983 figure was 13% above 1981's budget of $324.3 million.

The major reason given by Kroger for this latest cutback is related to the company's disappointing 1983 financial results. "Because economic recovery in several important states was slower than we projected, many of the new stores we had brought onstream over the past three years as part of our aggressive store building program didn't generate the sales we had planned," says Lyle Everingham, Kroger's chairman.

These disappointments caused Kroger executives to make the decision to "focus attention on improving the return on major investments made over the past several years" rather than to aggressively open new stores.

Budget down 25%

	1984	1983
Stores in operation at end of calendar year	2,481	2,582
Total stores added in calendar year	92	154*
Square footage added in calendar year	2,469,000	2,500,000
No. of stores closed	185*	8
Total capital expenditures	$275 mil.	$366.9 mil.

*Includes some drug stores acquired
**Estimated based on outcome of ongoing labor negotiations
Source: Chain data and Chain Store Age Executive estimates

As a result, Kroger plans to have approximately 45 new Kroger Food Stores, averaging about 45,000 sq. ft. each, open by the end of this year, and about 50 store remodels. Dillon, which continues to be operated as a basically separate entity, plans to open seven new combination stores and to carry through eight remodels.

Even including Dillon's activities, this construction plan for the major food store operations is still down sharply from the 1983 program when Kroger opened 81 new food stores and remodeled 81.

SuperRx, Kroger's drug store division, anticipates having 12 new facilities open by year end, down dramatically from the 1983 figures when 65 new units were opened or acquired and eight were remodeled.

The only portion of Kroger's corporate business that is actually on a growth plan in terms of units added is Dillon's convenience stores. Plans call for 28 new units.

Meanwhile, much of Kroger's attention has been focused on the closing of stores. This isn't being done because the company believes that the stores are outdated or because the markets have dried up. Instead, Kroger management has been closing stores in markets where it is unable to get the kind of labor rate concessions from the unions that it believes it needs. It is estimated that by year end, Kroger will have closed approximately 185 of its supermarket units in such markets as Baton Rouge, Pittsburgh, Michigan and Ohio. None of the Dillon operations are affected.

As a result, while Kroger's addition to gross square footage for 1984 will total approximately 2,469,000 sq. ft., there will actually be a net loss of square footage of approximately 3,497,250 sq. ft. ■

Allied to spend $500 million

In 1984, Allied Stores is budgeting for the net addition of 459,000 sq. ft.—comprised of four new department stores and 23 new specialty stores, minus a Harzfeld's store in Kansas City which was closed early this year.

The new department stores will be scattered all over the country. One is a Jordan Marsh in Waterford, Conn., which brings Jordan Marsh's New England holdings up to 17 units. A second was slated to open in Knoxville, under the Miller's logo, bringing that roster to 13 locations in eastern Tennessee.

The remaining two department stores are both branches of The Bon—one in Seattle and one in Idaho Falls, Idaho. The latter is a replacement of an older store, so The Bon will boast 37 units at year-end.

In addition, Allied will build two Brooks Brothers, five Ann Taylors, three Plymouth Shops and 13 Catherine's and Plus-Size outlets. The Ann Taylor additions represent a growth rate of 10% for the chain and will push its total retail space over the 200,000-sq.-ft. mark. The expansion of the Catherine's and Plus-Size operations remains one of Allied's priorities: by the end of the year, Allied will operate 181 of these "fuller-figure" shops.

If all proceeds according to plan, Allied will close the books on 1984 with 37.6 million sq. ft. of space.

The price tag for this expansion schedule is about $90 million, according to a spokesman for Allied. That's a bit less than the $100 million the corporation spent last year—but it doesn't indicate a less aggressive stance, says Allied. In fact, the diversified retailer's five-year plan calls for capital expenditures of $550 million in five years, through 1988. ■

Steady as she goes

	1984	1983
Stores in operation at end of calendar year	229	223
Total stores added in calendar year	27	45
Square footage added in calendar year	500,000	917,000
No. of stores closed	1	0
Total capital expenditures	$90 mil.	$100 mil.

Source: Chain data and Chain Store Age Executive estimates

Spending more than ever

Lucky Stores this year has boosted its capital expenditures budget by a whopping 64% from the year earlier investment and up to the highest level in the company's history.

The 1984 budget, which totals approximately $200 million compared with 1983's $122.3 million (and which includes some owned real estate) is being used to expand the company's food and department store operations and to develop selected areas of Lucky's specialty store business.

Lucky's 1984 plans include the opening of 150 new stores, the expansion of food stores wherever possible and an emphasis on keeping existing facilities in first-class condition.

In the food store area, Lucky plans to open 29 discount centers, averaging 31,000 sq. ft. in size, and to close four. This will bring the year-end total to 447, an increase in net square footage of 881,000 sq. ft.

As in 1983, there are no planned openings of conventional supermarkets but seven closings are expected. Unlike 1983 when seven such renovations took place, none of the conventionals are this year being converted to the discount center format.

However, despite Lucky's recent moves away from the conventional supermarket business, 19 recently acquired stores do fall into this category, so by year-end the total number of such stores will be up to 157 for a net addition to square footage of 396,000 sq. ft. in this category.

On a Lucky streak

	1984	1983
Stores in operation at end of calendar year	1,493*	1,439
Total stores added in calendar year	139	193
Square footage added in calendar year	2,327,000	1,600,704
No. of stores closed	46	64
Total capital expenditures	$200 mil.	$122.3 mil.

*Includes sale of 240 Pic-A-Dilly and It's-A-Dilly stores to The Limited
Source: Chain data and Chain Store Age Executive estimates

Although having rid itself of the Memco division in early 1983, Lucky remains active in the department store market through its Gemco stores which average 110,000 sq. ft. in size. Plans call for the opening of three of these before year-end, for a total of 79 units. This will result in a net addition to square footage of 328,000 sq. ft. since no closings are being planned.

Lucky is also being aggressive with the expansion of its specialty retailing ventures, with intentions to open a total of 99 such units this year.

Specifically, it plans to open 14 apparel and small department stores.

Although this part of Lucky's plan was originally intended to bring the year-end store count to 359 for a net addition to square footage of 54,000 sq. ft., Lucky has recently announced plans to sell off the 240 off-price apparel Pic-A-Dilly and It's-A-Dilly stores to The Limited. Lucky is retaining its Yellow Front operations.

There are also expected to be 65 new automotive stores debuting this year. These stores, ranging in size from 3,500 to 9,000 sq. ft., include Kragen, Checker and Honey's.

The third area of specialty retailing in which Lucky is involved is its fabric stores, including Hancock and Fabric Warehouse. Lucky intends to open 20 this year and to close five.

By the time the fiscal year ends Jan. 30, Lucky expects to have opened or acquired 150 stores and closed 46, and sold off 240 stores to The Limited for a year-end total of 1,493 retail units in operation and amounting to a net addition of 446,000 sq. ft., or 2,010,000 sq. ft. excluding the specialty store sell-off. ■

Super Centers play star role

Supermarkets General is having a busy year, planning to open as many as eight new Pathmark Super Centers and undertaking 15 major supermarket store renovations.

These efforts, however, account for only a portion the company's planned capital expenditures of $110 million, approximately the same amount spent during the previous year.

The Pathmark building activity is in addition to the acquisition of Purity Supreme, an operator of 28 supermarkets under that name along with 14 warehouse stores under the name Heartland.

Purity Supreme also includes 23 drug stores operating under the names Pharmacity and Heartland Drugs.

Beyond the company's activities in the supermarket/food store area, this year Supermarkets General intends to open four new Rickel home centers, including the chain's first units in Connecticut and Maryland, and eight freestanding drug stores.

The drug units include three deep discount drug stores in Baltimore, with each averaging approximately 25,000 sq. ft. Over the next five years, the company says, it intends to open more such units in Baltimore, as well as possibly expanding the concept to other geographic areas.

However, Supermarkets General is turning most of its attention, at least when it comes to construction and renovation, to its Pathmark operations. The major reason is obvious: the success of its Super Centers.

The company reports that the centers which were open for the full fiscal 1984, ended Jan. 30, 1984, produced an average volume of $26 million.

Having an active year

	1984	1983
Stores in operation at end of calendar year	284	270
Total stores added in calendar year	79*	14
Square footage added in calendar year	579,000	445,000
No. of stores closed	6	10
Total capital expenditures	$110 mil.	$110 mil.

*Includes acquisition of Purity Supreme but not 28 franchised operations
Source: Chain data and Chain Store Age Executive estimates

During 1983, Pathmark opened 15 Super Centers and converted 15 to this format. As a result, the company began 1984 with the highest proportion of new or recently modernized selling space in its history. ■

Survey shows disparity in MIS use by chains

Management information systems (MIS) are used by 100% of all general merchandise retailers recently surveyed by Touche Ross & Co., a national accounting firm, while open-to-buy and general ledger systems are used by only 4%.

The survey shows the level of installations and development in a variety of categories, in a sample of 26 operating divisions of general merchandise chains.

According to Robert Bartlett of Touche Ross, the survey clearly indicates that the industry has come a long way from automation of basic accounting systems. He adds that the perception of the state of the art has shifted from merchandising systems to marketing and data-based systems.

The survey *(see accompanying chart)* also shows that 69% of the respondents have advanced MIS systems for their big-ticket items, 61% have advanced systems for making price changes and 35% have "state-of-the-art" systems for merchandise accounting.

Bartlett notes that there still is a great deal of disparity between individual companies' component systems priorities. In addition, he says, there is substantial polarization relative to state-of-the-art systems (the survey shows that about one-third of the surveyed divisions have them). The remaining companies often have no plans to implement them whatsoever.

Behind these statistics, Bartlett says, referring to the chart, is an industry that is polarized, confused and uncertain. By "industry" he means the retail MIS industry itself, with all the attendant problems facing retail management in general, such as burgeoning costs, high turnover and poor management communications.

This polarization in relative sophistication levels has helped fuel heated debate on two important issues, says Bartlett: the use of personal computers (PCs) and point-of-sale (POS) data-capture technologies. Popular MIS opinion on the potential benefits of the PC boom ranges from total rejection to open-armed embrace—with an open-ended supporting budget.

The question of how much to spend on MIS is a vexing one, Bartlett says. The retailing industry doesn't have a standard way of recording overall MIS costs. Published industry sources tend to understate the actual

Level of MIS in general merchandise industry

System	Current		
Basic	None	Batch	On-Line
Credit Authorization	—	—	100%
Flash Sales	—	58%	42
Accounts Payable	—	69	31
Payroll	—	69	31
Accounts Receivable	—	73	27
Fashion	4%	58	38
Sales Audit	4	61	35
General Ledger	31	65	4
Collections	35	27	38
Advanced			
Price Change	8	31	61
Salesclerk Productivity	8	58	34
Transaction Time	23	65	12
Basic Stock	27	58	15
Big Ticket	31	—	69
Merchandise Planning	38	35	27
P.O.M.	46	—	54
Class O-T-B	61	35	4
State of the art			
Mdse. Accig. Database	65	—	35
Gift Registry	65	4	31
Customer Info. Database	73	8	19

Source: Touche Ross & Co.

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expenditures, or group them with operating costs. As a result, he says, many industry observers have used a "1% of sales" rule of thumb. Generally, this figure is assumed to exclude POS costs for operational POS networks, just as voice telephone network costs are treated as operational expenses.

The survey, however, leads Touche Ross to believe that the actual average rate is closer to 2%, says Bartlett. "Naturally, there is no easy way to compute this. But by putting together known MIS expense data and two key measures, we can demonstrate that, for the major department stores, this figure is well over 1.5%."

The two key measures were the amount of data processing power used and the number of data processing professionals engaged in developing and implementing systems. "Our research indicates that the nature of the people and equipment used varies dramatically, but that these measures are the best readily available indicators of the cost of a large-scale MIS program."

The data processing power of a computer can best be measured in terms of MIPS (millions of instructions per second). The data processing power employed by a company can be derived by adding up the MIPS of each computer and minicomputer installed. "Our analysis shows that the department store industry has an average of 12 MIPS per billion dollars of sales. It also employs just over 40 systems professionals per billion dollars of sales. Around these averages are a wide range of MIS investment levels," says Bartlett.

So how much is enough? It's hard to say, he replies, but any user-driven (bottom-up) systems planning process is probably on the right track, suggesting a company raise its expenditures to these average levels.

The reason Touche Ross took its survey of department stores was to get some answers as to what levels and types of resources are required for MIS programs.

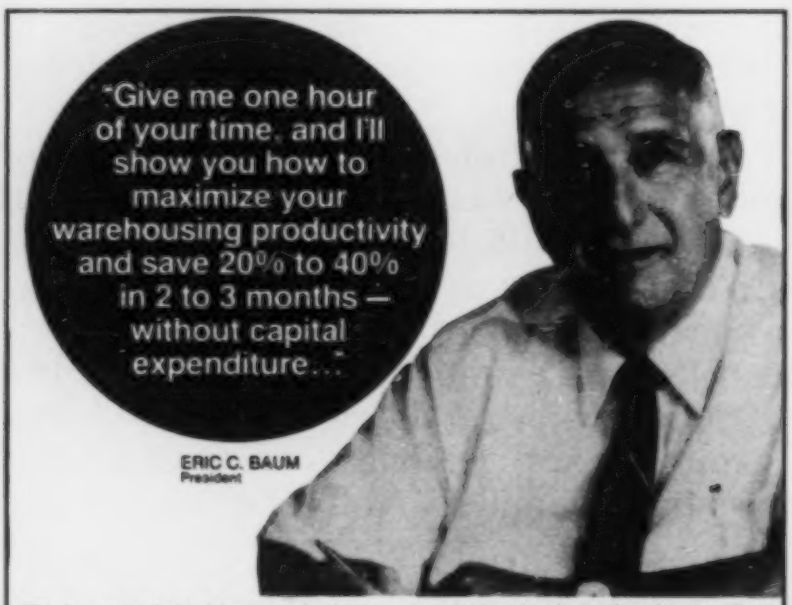
The department store industry employs over 40 systems professionals per billion dollars of sales

Historically, Bartlett says, department stores have pioneered the use of data processing technology, although in recent years the supermarket industry leaped ahead through the use of bar codes and laser checkout scanners.

Of course, he adds, the department store industry with its hundreds of thousands of sku's, wide variety of merchandising and service strategies, and volatility in the nature and number of its resources has a much greater problem in getting integrated technologies to work.

Comments Bartlett: "Indeed, it is very difficult to get the retail ceo, gmm, and cfo in any general merchandise retail company to agree on a definition of the state of the art or what is an appropriate amount of money and effort to be spending on the MIS program."

In addition to the levels and types of resources required, Touche Ross also wanted to know what realistic expectations about the nature and sophistication of the resultant systems could be expected. Further, he adds, what does the future hold in terms of the state of the art and the new information systems priorities? ■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